

*The Role of Conditional Cash
Transfers in the Process of
Equitable Economic Development*

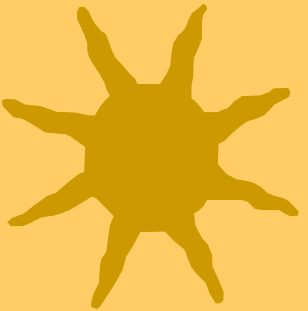
Francisco H.G. Ferreira

The World Bank &

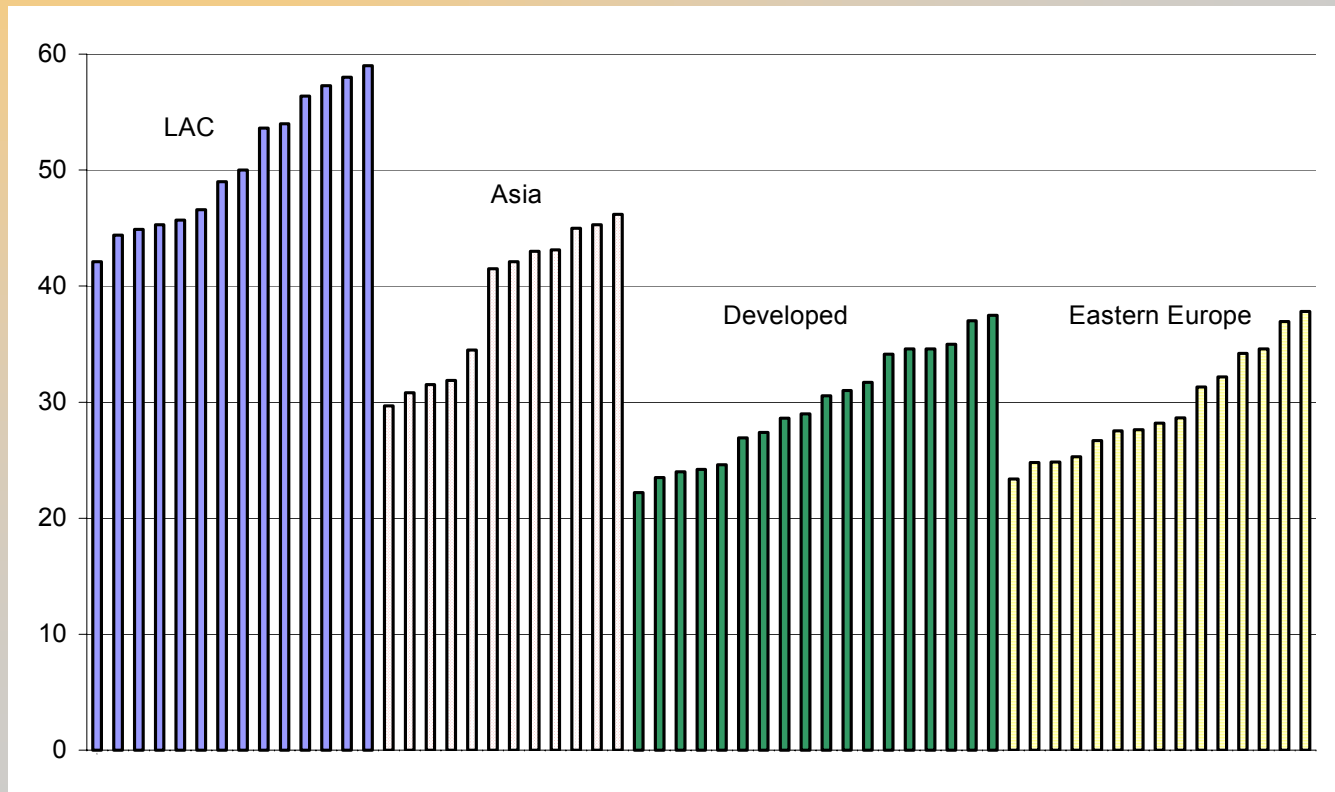
Dept. of Economics, PUC-Rio



Latin America (and Africa) are high-inequality regions.



Gini coefficient: distribution of household per capita income, regions of the world, 1990s



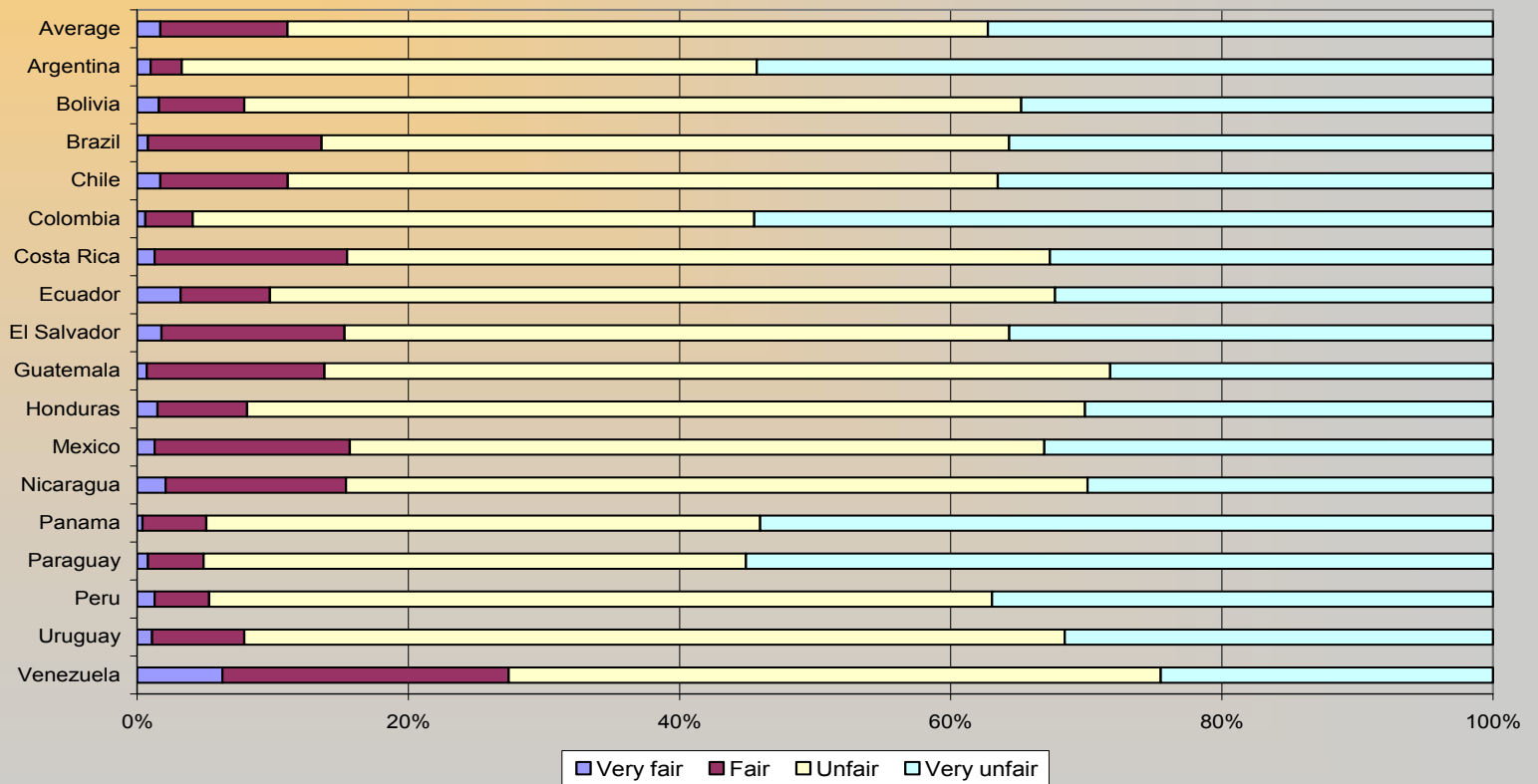
Source: de Ferranti et. al. (2003), *Inequality in Latin America: Breaking with History?*, (Washington, DC: World Bank).



Inequality is widely repudiated in its own right.



Figure 1.2: Perceptions of fairness of the income distribution in Latin America

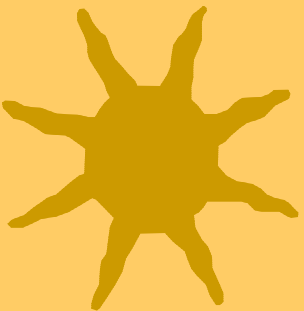


* Source: Latinbarometer (2001). Responses to the question: "Do you think that the income distribution is ... ?"

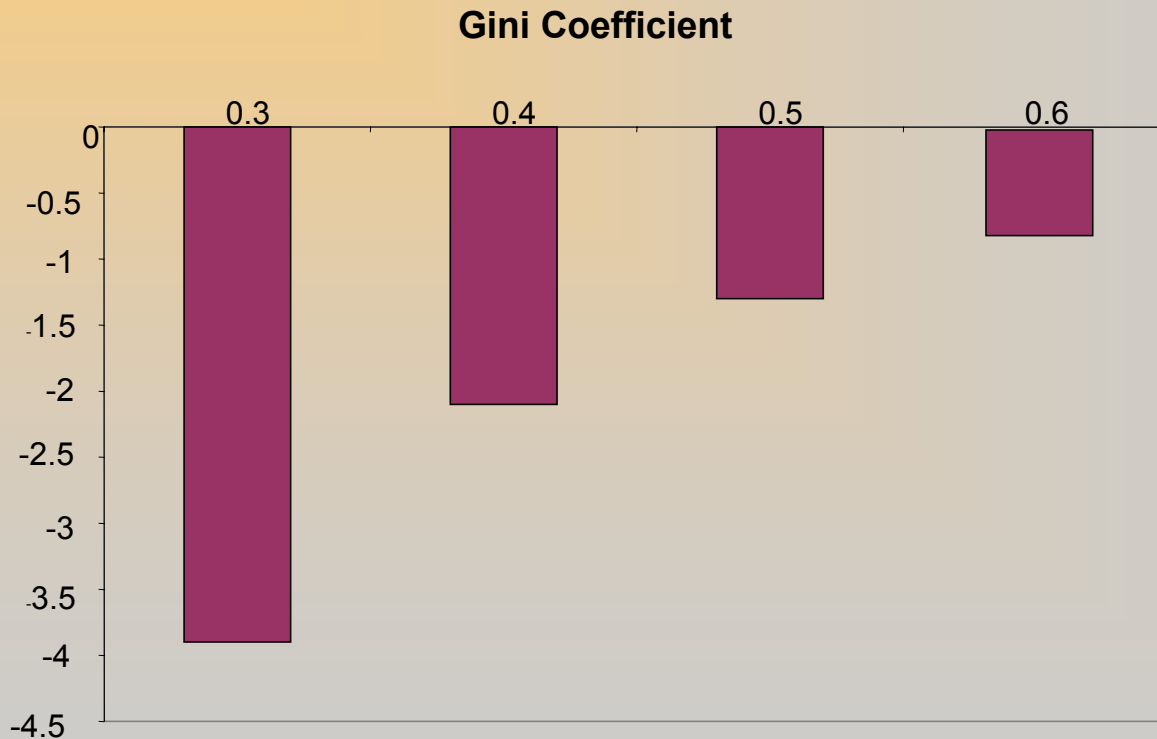
Source: de Ferranti et. al. (2003), Inequality in Latin America: Breaking with History?, (Washington, DC: World Bank).



It also slows down poverty reduction, and may generate conflict and reduce investment.



Percentage point reduction in P_0 from a 1% growth in mean income.



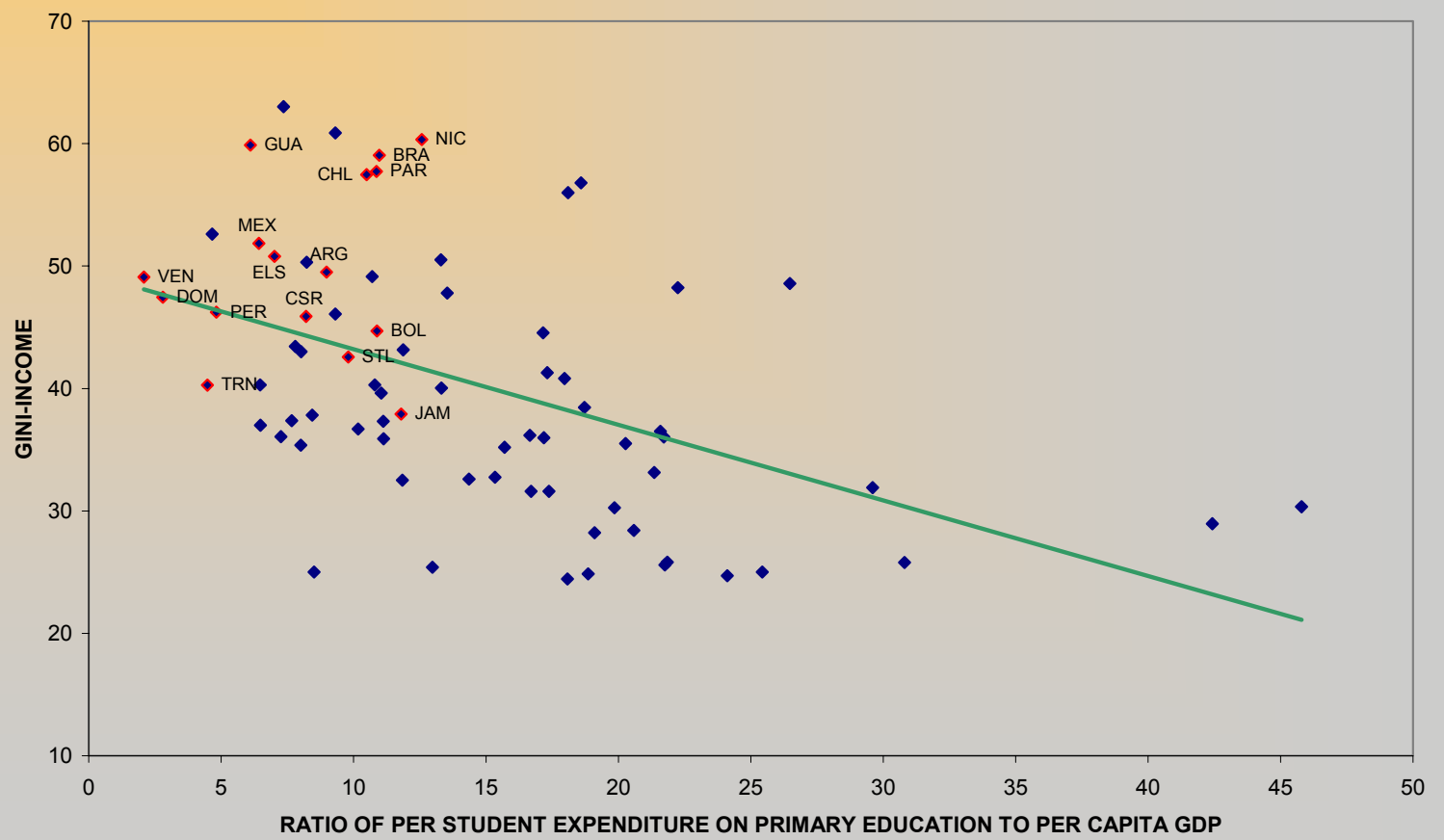
Nota: This corresponds to a 33 percent initial poverty rate. Simulated under a lognormality assumption.



Public Spending in LDCs is rarely effective in reducing inequality.



PRIMARY EDUCATION EXPENDITURE AND INEQUALITY ACROSS COUNTRIES

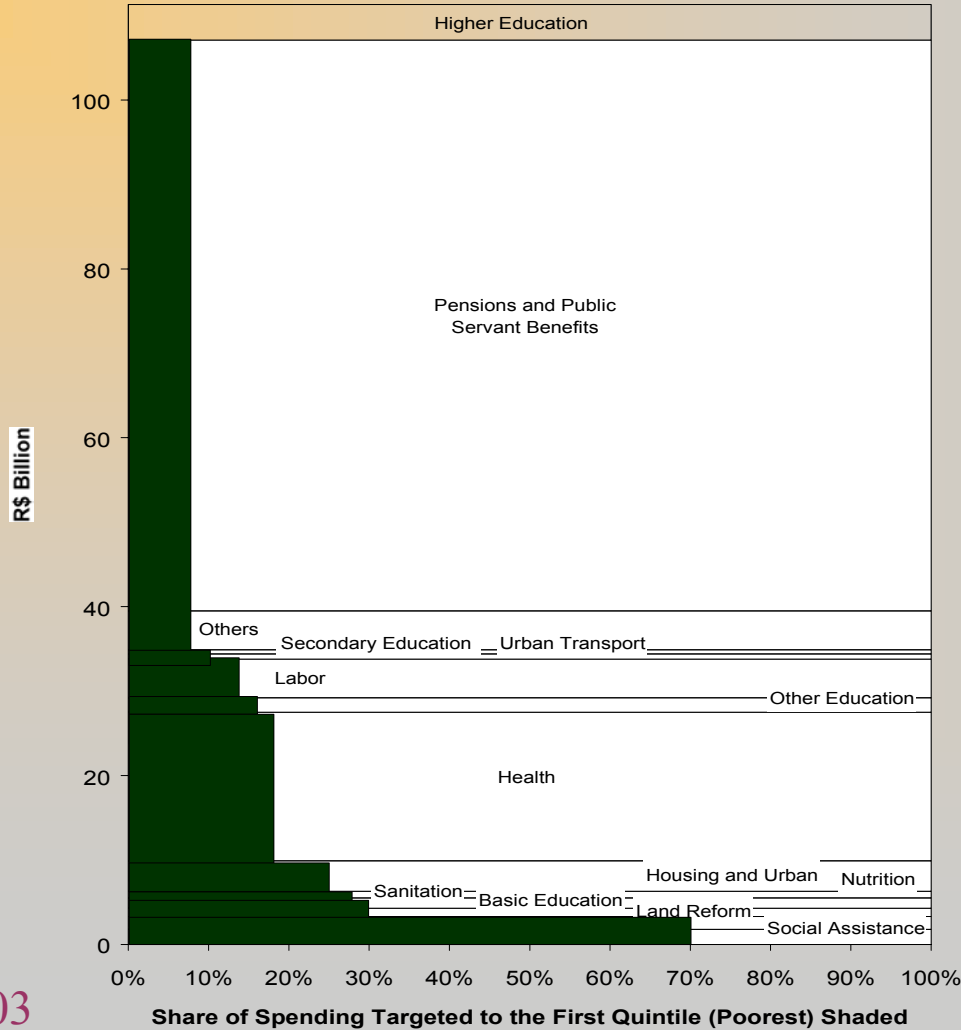
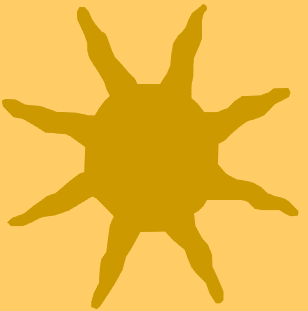


Data Sources: World Development Indicators Database (The World Bank) for Income Ginis and Per Student Expenditure on Primary Education to Per Capita GDP Ratios.



An Example from Brazil (1997)

Share of Spending reaching poorest 20%

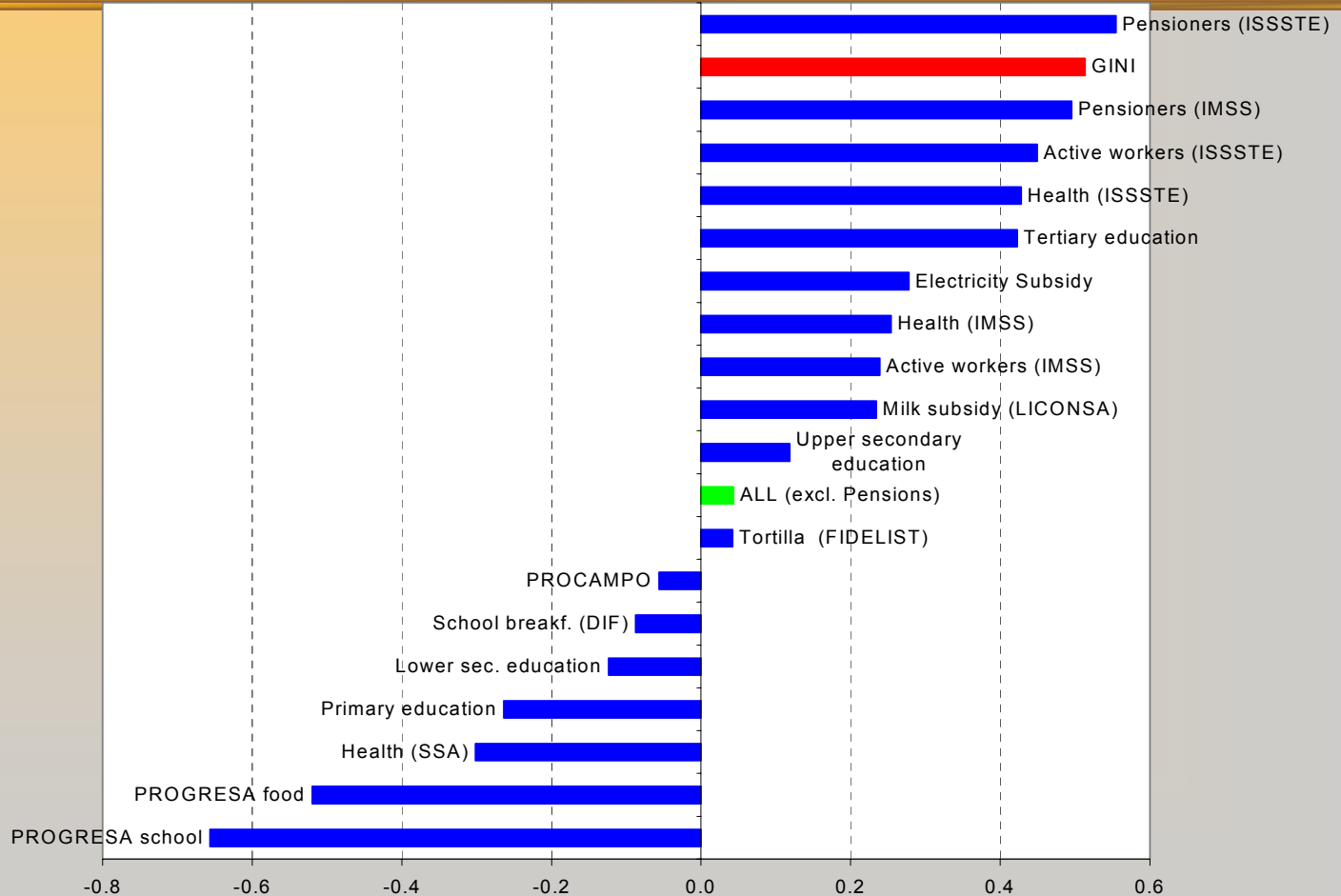


Source: World Bank, 2003



An Example from Mexico (2000)

Concentration Coefficients

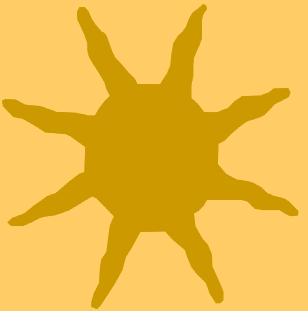


Source: de Ferranti et. al. (2003), Inequality in Latin America: Breaking with History?, (Washington, DC: World Bank).



Conditional Cash Transfers

A building block for a more effective state?



★ **Cash benefits targeted on the basis of a means-test**

- Best-practice is a verified proxy means-test

★ **Receipt conditional on human capital investments (nutrition, health, education)**

- Best practice is integrated conditionality

★ **Have become widespread in Latin America (and beyond)**

- Bolsa Família (Brazil)
- Oportunidades (Mexico)
- PRAF (Honduras)
- Cash-for-Education (Bangladesh)
- RPS (Nicaragua)
- Bono de Desarrollo Humano (Ecuador)





Conditional Cash Transfers

Really do reach the poor; ...



Cumulative distribution of beneficiaries across national consumption deciles, in percent

| <i>Decile</i> | <i>PRAF (Honduras)</i> | <i>RPS (Nicaragua)</i> | <i>Progresa (Mexico)</i> | <i>SUF (Chile)</i> |
|---------------|------------------------|------------------------|--------------------------|--------------------|
| 1 | 22.1 | 32.6 | 22 | |
| 2 | 42.5 | 55 | 39.5 | 67 |
| 3 | 66.9 | 70.2 | 51.9 | |
| 4 | 79.5 | 80.9 | 62.4 | 88.8 |
| 5 | 88.6 | 89.6 | 70.9 | |
| 6 | 93.5 | 94.3 | 80.5 | 97.2 |
| 7 | 97 | 97.1 | 87.8 | |
| 8 | 97.3 | 99.1 | 93 | 99.8 |
| 9 | 97.7 | 99.8 | 98 | |
| 10 | 100 | 100 | 100 | 100 |

Sources: For Chile, MIDEPLAN 1998; for Honduras, Nicaragua, and Mexico, Morris and others 2002 (Table 4).



Conditional Cash Transfers

... and seem to increase investment in their human capital; ...



★ Results from the Progresa controlled experiment; differences-in-differences estimators, 1997-1999:



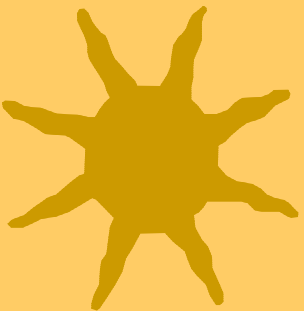
- Girls enrollment, middle school 7.2-9.3 p.p.
- Boys enrollment, middle school 3.5-5.8 p.p.
- Child labor force participation minus 15-25%
- Height-for-age among 12-36 month-olds 16%
- Mean food expenditures 11%
- Incidence of illness (newborns) minus 25%
- Poverty Gap minus 36%





Conditional Cash Transfers

... all at reasonably low costs.



| | Coverage | Total Annual Budget | %GNI | %GTE | %GEE |
|--|--------------------------------|------------------------|------|------|------|
| PROGRESA (Mexico, introduced August 1997) | 2.6 million households in 1999 | 998 million in 2000 | 0.2 | 1.6 | 4.1 |
| PRAF (Honduras, introduced late 2000) | 47.8 thousand households | 12.5 million in 2001 | 0.2 | 2.0 | 5.0 |
| RPS (Nicaragua, pilot introduced October 2000) | 10 thousand households in 2001 | \$10 million in 2001-2 | 0.2 | | |
| FFE (Bangladesh, introduced 1993) | 2.1 million students in 2000 | 77 million in 1999 | 0.2 | 4.2 | 7.9 |
| FEP (Bangladesh) | | 15 million | 0.04 | 0.7 | 1.4 |
| SUF (Chile) (1998) | 954,000 students | 70 million | 0.1 | 0.9 | 3.5 |
| BE (Brazil) (2001) | 5 million families | 680 million | 0.15 | 0.7 | 2.5 |
| | | | | | |

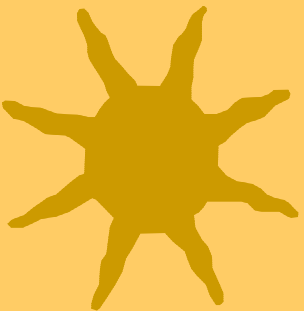


Complacency is to be avoided

Challenge 1: Entry



★ The progressive incidence of *Progresas* and other successful programs is the result of deliberate targeting through



– **Geographical targeting** on aggregate spatial poverty indicators

– **Proxy Means Testing** on the basis of a carefully prepared questionnaire and weighting scheme

– **Verification** visits by community-based social workers (possibly random).

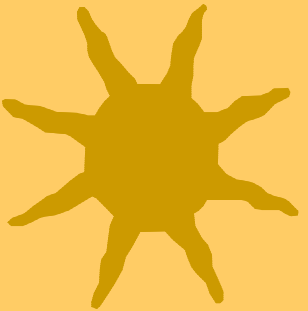


★ **Note:** effective targeting allows transfer amounts to rise without triggering excessive leakage.



Complacency is to be avoided

Challenge 2: Exit



- ★ In order for:
 - i. Conditionality to remain credible
 - ii. Program to be effective tool for risk-management
 - iii. Culture of dependency to be avoided



Program must keep a steady flow of **orderly and expected exits** by households which



- i. Fail to meet a condition
- ii. Fail to meet the means-test
- iii. Are no longer part of targeted public



Complacency is to be avoided

(And conditionality does seem to matter!)

Table 7: Simulated effect on schooling and working status of alternative specifications of conditional cash transfer program (all children 10-15 years old)

| | All Households | | | | | | |
|---------------------------------|------------------------|------------------------|---------------|---------------|---------------|---------------|---------------|
| | Original | Bolsa escola's program | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
| Not going to school | 6.0% | 3.7% | 2.9% | 2.2% | 2.8% | 3.2% | 6.0% |
| Going to school and working | 16.9% | 17.3% | 17.4% | 17.4% | 17.4% | 17.5% | 16.8% |
| Going to school and not working | 77.1% | 79.0% | 79.7% | 80.3% | 79.8% | 79.3% | 77.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| | Poor Households | | | | | | |
| | Original | Bolsa escola's program | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
| Not going to school | 8.9% | 3.7% | 1.9% | 0.6% | 1.8% | 3.6% | 8.9% |
| Going to school and working | 23.1% | 24.7% | 25.1% | 25.4% | 25.2% | 24.9% | 23.0% |
| Going to school and not working | 68.1% | 71.6% | 72.9% | 74.0% | 73.0% | 71.4% | 68.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: PNAD/IBGE 1999 and author's calculation

note: Scenario 1: transfer equal R\$30, maximum per household R\$90 and means test R\$90

Scenario 2: transfer equal R\$60, maximum per household R\$180 and means test R\$90

Scenario 3: different values for each age, no household ceiling and means test R\$90

Scenario 4: transfer equal R\$15, maximum per household R\$45 and means test R\$120

Scenario 5: Bolsa escola without conditionality

Source: Bourguignon, Ferreira & Leite (2003)



Complacency is to be avoided

Challenge 3: Evaluation



★ A credible evaluation

- Is a program’s best advertisement
- Helps ensure continuity across political cycles
- Helps improve program design
- Requires comparison with a meaningful **counterfactual** for “how participants would have fared without program”
 - Selectivity biases abound
 - Experimental designs best
 - Regression discontinuity approaches or comparison groups based on matching techniques second-best
 - **Comparing before-after, participants vs. non-participants NOT acceptable**